

# COMPLIANCE AUDIT

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## Norriton Fire Engine Company Relief Association Montgomery County, Pennsylvania For the Period January 1, 2011 to December 31, 2013

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February 2015



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

Mr. Kevin McDevitt, President  
NORRITON VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Montgomery County

We have conducted a compliance audit of the Norriton Volunteer Firefighters' Relief Association pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2011 to December 31, 2013.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objective of the audit was to determine if the volunteer firefighters' relief association received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures. Our audit was limited to the areas related to the objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Norriton Volunteer Firefighters' Relief Association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context of the audit objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Norriton Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Norriton Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2013, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objectives.

The results of our audit, for the period January 1, 2011 to December 31, 2013, found the Norriton Volunteer Firefighters' Relief Association, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed later in this report.

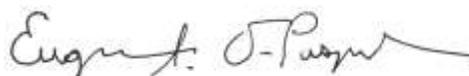
Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Failure To Maintain A Complete And Accurate Equipment Roster

The results of our tests also indicated the Norriton Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2013, had a cash balance of \$395,570 and an investment balance with a fair value of \$155,617.

The contents of this report were discussed with the management of the Norriton Volunteer Firefighters' Relief Association. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

January 14, 2015



EUGENE A. DEPASQUALE  
Auditor General

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## BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.701 *et seq.* (commonly referred to as Act 205), are properly expended.

The Norriton Fire Engine Company Relief Association, herein referred to as the Norriton Volunteer Firefighters' Relief Association, is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 118 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations, which is or are recognized as providing the service to the municipality.

**BACKGROUND – (Continued)**

The Norriton Volunteer Firefighters’ Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
East Norriton Township	Montgomery	\$205,475	\$117,050	\$132,471

The volunteer firefighters’ relief association and the affiliated fire service organization are separate, legal entities. The Norriton Volunteer Firefighters’ Relief Association is affiliated with the following fire service organization:

Norriton Fire Engine Company

NORRITON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Undocumented Expenditures**

**Condition:** The relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
03/07/12	1129	Equipment	\$ 2,481
06/10/13	1272	Equipment	420
Total			<u>\$ 2,901</u>

**Criteria:** Act 118 at 35 Pa.C.S. § 7418(a) states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), [FN1] known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Without adequate supporting documentation, such as an invoice, we were unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

**Cause:** Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

**Effect:** Lack of supporting documentation, such as invoices and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

NORRITON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as invoices, to ensure the propriety of the expenditures or that the relief association be reimbursed \$2,901 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

**Finding No. 2 – Failure To Maintain A Complete And Accurate Equipment Roster**

Condition: The relief association did not maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit period, this listing was incomplete and did not use all the necessary criteria such as dates of purchase, names of suppliers, and unit cost to accurately identify all of the equipment purchased by the relief association. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all of the relief association's owned equipment.

Criteria: Prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include the following:

- Types of equipment purchased.
- Dates of purchase.
- Unit costs.
- Names of suppliers.
- Serial numbers, if applicable.
- Current locations of items.
- Final dispositions of sold or damaged equipment.
- Evidence of the performance and results of an annual physical inventory.

NORRITON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Cause: Relief association officials failed to establish adequate internal control procedures over equipment requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

Management's Response: Compliance will be subject to verification through our next audit.

NORRITON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2011 TO DECEMBER 31, 2013

Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds.

Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 22,186
Death benefits	7,000
Relief benefits	3,146
Total Benefit Services	\$ 32,332
Fire Services:	
Equipment purchased	\$ 192,907
Equipment maintenance	59,132
Training expenses	20,955
Total Fire Services	\$ 272,994
Administrative Services:	
Officer compensation	\$ 1,200
Other administrative expenses	16,826
Total Administrative Services	\$ 18,026
Total Investments Purchased	\$ 3,175
Other Expenditures:	
Undocumented expenditures	\$ 2,901

NORRITON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

Norriton Volunteer Firefighters' Relief Association Governing Body:

Mr. Kevin McDevitt	President
Mr. Andrew Gilman	Vice President
Ms. Marilyn Damiani	Secretary
Mr. Ted Fonash	Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association:

Mr. Donald D. Delamater    Secretary  
East Norriton Township

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).